

**Exhibit B**

**Zwilling, Zachary S.**

**From:** Reorg Alert <dockets@reorg-research.com>  
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**To:** Zwilling, Zachary S.  
**Subject:** [EXT] Puerto Rico - AAFAF Chief 'Cautiously Optimistic' on Prospects for Commonwealth, PREPA Debt Restructuring Deals This Term (Americas Intelligence)

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### Puerto Rico

## AAFAF Chief 'Cautiously Optimistic' on Prospects for Commonwealth, PREPA Debt Restructuring Deals This Term

September 11, 2020 11:40

The administration of Gov. Wanda Vázquez is "cautiously optimistic" about the potential for debt restructuring deals for the commonwealth and Puerto Rico Electric Power Authority before the end of the current political term in December and has not ruled out convening a special session to consider legislation to execute either, Puerto Rico Fiscal Agency and Financial Advisory Authority Executive Director Omar Marrero said Thursday.

"If we have to do that we'll do it, but right now we don't have an agreement in front of us to consider the legislation for it," Marrero said about the possibility of a special legislative session with debt restructuring bills on the agenda.

"Obviously we remain cautiously optimistic, we remain committed to the process, and if there is any way we can reach an agreement not only on the PREPA side but also on other restructurings, including the [commonwealth](#), we will seriously consider it," Marrero said. "We need to terminate the bankruptcy, we need to get out of Title III and we need to get rid of the oversight board."

Marrero's comments came in a brief interview with Reorg at the Capitol in San Juan following his testimony during a House Economic Development, Planning, Telecommunications, Public-Private Partnerships and Energy Committee hearing on PREPA issues including the agreement with [Luma Energy](#) that is putting the utility's transmission and distribution system under private operation through a 15-year contract.

The hearing also included testimony from top executives at PREPA; the Puerto Rico Public-Private Partnerships Authority, or P3 Authority; the Central Office for Recovery, Reconstruction, and Resilience, or COR3; and the chairman of PREPA's governing board.

The hearing touched on PREPA's Title III process, with Marrero noting that a restructuring support agreement with creditors remains "paused" as work to gauge the macroeconomic impacts of the Covid-19 pandemic continues. The oversight board and AAFAF are due to file a [status report](#) with the Title III court on the PREPA's financial condition, proposed next steps regarding the [Rule 9019 motion](#) and PREPA adversary proceedings on Sept. 25.

Marrero noted that PREPA's pensions were left out of the current RSA and said the reality is that the utility would have to look at rate hikes to cover 100% of pension obligations that include some \$460 million in owed employer contributions and an unfunded pension liability of \$4.3 billion.

The AAFAF chief also defended the so-called "sun tax" in the RSA, which has been cited as a sticking point by [legislative leaders](#) who have maintained that potential PREPA debt restructuring legislation would not be passed if it represents an increase in rates. Marrero said the levy has been "badly mislabeled" due in part to

“business interests.” He told committee members that a better way to look at the levy, utilized in markets including California and Hawaii, is as a “non-bypassable system support charge” that shields the majority of islanders who cannot afford to purchase solar systems from shouldering a bigger burden of energy costs.

P3 Authority Executive Director Fermín Fontanés told Reorg after the hearing that the response has been strong to the recently issued request for quote, or RFQ, related to the operation of PREPA’s [legacy generation assets](#). Responses to the RFQ are due by Sept. 15, and the government is [aiming](#) to follow up with the launch of a request for proposals, or RFP, process by year’s end.

“I can tell you the level of interest has been really good,” Fontanés said, adding that closing the T&D transaction was likely a factor driving the solid response so far.

The P3 Authority is also drafting an RFP for renewable energy projects in light of the Puerto Rico Energy Bureau’s final resolution and order on PREPA’s [integrated resource plan](#), or IRP, and the oversight board’s concerns around certain solar power purchasing and operation agreements, or [PPOAs](#). The oversight board has told PREPA it is limiting its approval of new solar power generation to 150 megawatts over pricing concerns, determining that approving the nearly 600 MW of proposed new solar generation embodied in PPOAs for 16 “shovel ready” projects would result in energy rates higher than projected in PREPA’s fiscal plan.

“Now that the IRP has been issued and we know more or less the quantity of renewables that we have to inject into the system, and considering that the oversight board established some limitations on the amount of projects that are going to be allowed, we have room to start at least an initial procurement process,” Fontanés told Reorg.

During the hearing, COR3 Deputy Director Roberto Méndez signaled that a final settlement with the [Federal Emergency Management Agency](#) on post-hurricane recovery funding for PREPA under section 428 of the Stafford Act would reach \$10.5 billion, with some \$9.4 billion coming directly from FEMA. The commonwealth plans to tap part of the \$1.9 billion in U.S. Department of Housing and Urban Development Community Development Block Grant-Disaster Recovery funds earmarked for the island’s energy sector to pitch in the local matching funds to round out the FEMA settlement total to \$10.5 billion.

Méndez said that while a final settlement with FEMA is “very close,” the numbers he cited should be considered “preliminary” at this stage and subject to change.

Interim PREPA Executive Director Efran Paredes said the settlement funds would drive a 10-year plan to rebuild the island’s electric system. Fontanés added that the settlement would be FEMA’s largest ever.

A substantial portion of the hearing, which was held as part of the House committee’s ongoing monitoring of Act 17 of 2019, known as the Puerto Rico Energy Public Policy Act, and Act 120 of 2018, or the Puerto Rico Electric System Transformation Act, was focused on the Luma Energy deal, particularly as it pertains to PREPA workers’ jobs, acquired rights and pension options. Officials stressed that PREPA workers would be given priority as Luma Energy ramps up its hiring and that pay and benefits would be on par or better than under the utility.

Marrero, Fontanés and other officials also answered lawmaker queries on the T&D procurement process, among other issues related to the Luma Energy agreement.

Fontanés noted that Puerto Rico’s unreliable and inefficient power system represents costs to Puerto Rico businesses, residents and the economy that reach far beyond the terms awarded to Luma Energy.

Marrero stressed that two core considerations in the structure of the deal were to maintain the tax-exempt status of PREPA’s bonds and to allow the utility to continue to be the receiver of FEMA and other federal funds now and into the future. He added that after the 15-year contract, which is well under the initial 50-year maximum under Puerto Rico’s public-private partnership law, the commonwealth would decide whether to renew the agreement, retake the reins of the grid or go in another direction.

Officials said four months of payments to Luma Energy were advanced to a reserve account as contemplated in the agreement to provide “visibility” on the funds, adding that the company had tapped \$6.5 million of that as of last week.

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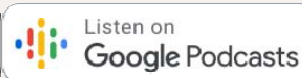
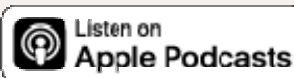
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